

**EFFECTIVE RATE STRUCTURE WORKING GROUP**

November 16, 2012

Attendees

- Gordon Hess
- Bruce Rainey
- Glen Schmidt
- Keith Solar
- Amy Albanese, Office of City Councilmember Sherri Lightner
- Brent Eidson, City of San Diego Public Utilities Dept.

Objective: To identify and evaluate options for a tiered rate or allocation pricing structure for single-family residential water customers that encourages conservation and discourages waste and supports the needs of private sector businesses and agriculture.

Background: City of San Diego Ratepayers generally pay a flat fee of approximately \$20 per month, which covers certain administrative costs, such as meter reading, and some capital expenditure costs. In addition, ratepayers pay a commodity charge based on the amount of water actually used. The City water rate ordinance has three cost tiers: 1) from 1 to 7 hundred cubic feet (“hcf”) of water per month; 2) from 8 to 14 hcf per month; and 3) over 14 hcf per month. The difference in cost between the tiers is relatively flat. For example, the second tier of water costs ten percent (10%) more than the first tier, and the third tier of water costs ten percent (10%) more than the second tier.

The City currently has approximately 277,000 residential water service connections. Water consumption for most of these connections falls in tier two or tier three. However, even though most water consumption falls in the top two tiers, water use among single-family residential customers has declined from an average of 168.39 hcf in FY 2007 to 126.22 hcf in FY 2012, with most of the reduction coming after 2009. Currently it is not known whether the decline in water usage is due to a conservation awareness or to the overall state of the economy.

Recommendation: In general, the Working Group believes that thrifty water users should pay less for their water and wasteful water users should pay more, and that the City’s rate structure should reflect this policy. Accordingly, to encourage conservation, the Working Group recommends that the City retain its tiered structure, but that there be a greater cost difference between tiers. For example, some water suppliers that use a three-tiered rate structure charge thirty percent (30%) more for tier two than tier one, and forty percent (40%) more for tier three than tier two. Black and Veatch currently is performing a cost of service study for the City. The

Working Group recommends that this study be used to determine how much the City should charge for each tier of water service.

The Working Group also recommends that the City accelerate its studies, and based on the results of those studies, move forward with a water-based budget for its approximately 4,400 irrigation-only accounts.

Other Matters: With respect to rate structure, the Working Group currently is discussing whether the City should:

1. Charge for its local supplies in tier one, and its imported supplies in tier two, which would help justify charging higher rates between the tiers;
2. Consider charging winter and summer rates, which could help justify charging higher rates in hotter, drier months;
3. Consider lowering its fixed monthly charge, increasing its tier one rate to compensate for the reduction in the monthly charge, and adopting steeper rates between all of its consumption tiers;
4. Adopt a water-based budget, with each single-family customer being allocated an amount of water based on the actual or an assumed number of people who reside indoors plus an amount of water based on the square footage of landscape; and
5. Pass-through actual costs of water to reflect increases being imposed by regional wholesalers.